

Message Text

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ACTION L-03

INFO OCT-01 ARA-06 ISO-00 EB-07 STR-04 COME-00 TRSE-00

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FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 92

INFO AMEMBASSY GUATEMALA

AMEMBASSY TEGUCIGALPA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

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E.O. 11652:N/A

TAGS: ECON,ES

SUBJECT: DRAFT INSURANCE LAW

REF: STATE 7779

1. DCM AND I CALLED ON FOREIGN MINISTER BORGONOVO ON OTHER BUSINESS JANUARY 20 AND WE TOOK OPPORTUNITY TO EXPRESS OUR CONCERN ABOUT DRAFT INSURANCE LAWS IN ACCORDANCE WITH INSTRUCTIONS REFTTEL. BORGONOVO LISTENED CAREFULLY AND INDICATED HE WOULD SEND ANOTHER MEMO TO MINISTER OF PLANNING VIEYTEZ RE PROPOSAL, AS HE HAD DONE ALREADY FOLLOWING EARLIER INFORMAL EXPRESSION OF CONCERN ON MY PART, PRINCIPALLY CONCERNING ITS EFFECT ON THE "INVESTMENT CLIMATE". BORGONOVO COMMENTED HE THOUGHT PROPOSED LAW AS CURRENTLY DRAFTED WAS UNFAIR TO ESTABLISHED FOREIGN COMPANIES AND WOULD PROBABLY BE CHANGED BEFORE BEING PRESENTED TO THE ASSEMBLY.

2. SALVADORAN ASSOCIATION OF INSURANCE COMPANIES PRESENTED MEMO TO MINISTER OF ECONOMY JANUARY 12 SUGGESTING, INTER ALIA, NEW LANGUAGE REGARDING FOREIGN COMPANIES FOR ARTICLES 80 AND 81. UNDER ASSOCIATION DRAFT ART. 80, BRANCHES OR AGENCIES OF FOREIGN COMPANIES COULD CONTINUE TO OPERATE PROVIDED (1) WITHIN SIX

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MONTHS OF DATE OF ENTRY INTO FORCE OF LAW THEY PRESENT TO SUPER-

INTENDENT OF INSURANCE A WRITTEN COMMITMENT FROM THE HOME OFFICE THAT THE COMPANY WILL COMPLY WITH THE PROVISIONS OF THE LAW AND (2) THAT A JOINT STOCK COMPANY TO DO THE FIRM'S BUSINESS BE ORGANIZED WITHIN 18 MONTHS OF THE DATE OF ENTRY INTO FORCE OF THE LAW. FOREIGN COMPANIES NOT COMPLYING WITH THE ABOVE REQUIREMENTS WOULD BE REQUIRED TO SUSPEND OPERATIONS WITHIN THE TIME FRAMES INDICATED BUT WOULD HAVE TO MAINTAIN A BRANCH OR OFFICE TO MEET ANY OBLIGATIONS INCURRED DURING THE COURSE OF THEIR OPERATIONS WITHIN THE COUNTRY. SUGGESTED NEW ART 81 WOULD PROVIDE THAT FOREIGN LIFE INSURANCE COMPANIES WITH BRANCHES OR AGENCIES IN THE COUNTRY WHICH DO ORGANIZE JOINT STOCK COMPANIES AS REQUIRED BY THE LAW WILL HAVE TEN YEARS IN WHICH TO ADJUST THEIR CAPITAL TO THE PERCENTAGE REQUIREMENTS OF ART 12 (60 PERCENT SALVADORAN OR CENTRAL AMERICAN CAPITAL).

3. LOCAL REPRESENTATIVES OF US INSURANCE COMPANIES ARE NOW MODERATELY OPTIMISTIC ABOUT CHANCES OF DELAYING LEGISLATION OR AMENDING IT IN A WAY WHICH WILL ALLOW THEM TO OPERATE ON REASONABLE TERMS. REPRESENTATIVES OF PAN AMERICAN LIFE INSURANCE COMPANY HAVE CALLED ON PRESIDENT OF CENTRAL RESERVE BANK HIDALGO QUEHL AND MINISTER OF PLANNING VIEYTEZ AND REPORTED THEM TO BE SYMPATHETIC TO CAUSE OF FOREIGN COMPANIES. WHAT LOCAL REPS NOW HOPE FOR IS "GRANDFATHER CLAUSE" WHICH WILL ALLOW FOREIGN FIRMS ESTABLISHED IN THE COUNTRY BEFORE LAW GOES INTO EFFECT TO CONTINUE OPERATING. THERE IS PRECEDENT FOR THIS IN SALVADORAN LAW REGULATING BANKS AND CREDIT INSTITUTIONS.

4. IN EMBASSY VIEW, SIGNS OF OPPOSITION AT HIGH LEVELS OF GOES TO PROVISIONS OF DRAFT LAW AFFECTING FOREIGN COMPANIES, PLUS LONG BUREAUCRATIC ROAD DRAFT LAW MUST STILL PASS (APPROVAL BY ECONOMIC COMMITTEE OF THE EXECUTIVE BRANCH AND BY JUNTA MONETARIA) BEFORE REACHING LEGISLATURE SUGGEST THERE IS GOOD CHANCE DRAFT WILL BE SUPPRESSED OR FAVORABLY MODIFIED. EMBASSY WILL CONTINUE TO MONITOR AND REPORT.

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